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DATE

TO : Chief, IS

FROM : Chief of Mission, Frankfurt

SOURCE CODE - CAY/Intell

MESSAGE - Report on European Committee for Economic and Social Progress
(C.E.S.P.)

1. Attached hereto is a copy of CESP, a study issued by a committee of European industrialists suggesting the organization on a supranational level of a committee to shape European economic policy.

2. This group was originally formed in 1952 by Prof. Vittorio GIUSTI, chairman of the board of the Fiat car company of Italy, Dr. WILHELM KÜHN, director of Val. Haniel & Co., Düsseldorf, and Harry VAN DER LINDEN, chairman of the board of S.A. Marte, Wageningen, Belgium. Members of this group include many influential West German industrialists, bankers, merchants and scientists, as well as Dr. Ludwig Erhard, West German Economics Minister. A fullelist of the German executive members is also attached hereto.

3. The undersigned has attended a few of the Committee's meetings here for the purpose of making new contacts than listening to the endless discussions on monetary convertibility, etc. I find that a great deal of serious planning and thought is being given to the CESP idea.

4. It is suggested that attached material be turned over to EECAP for their orientation and study.

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Attachments: MEMO
CESP (German)
Translation of Memo

? February 1955

Distribution:

3 - 3, w/ 3, w/o CESP in top. Translations in top.
COM - 3, w/o translations only, size 10 only

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Purpose and Tasks of the CEPEE.

The European Committee for Economic and Social Progress (Comité Européen pour le Progrès Économique et Social, CEPEE) is an international committee which comprises industrialists, merchants, bankers, farmers and scientists of various European countries. The Committee developed in 1952 from a loose contact between individual entrepreneurs. CEPEE is intended to enable its members to participate on an international and supra-national basis in the shaping of the European economic policy. A friendly contact with the US-Committee for Economic Development (CED) provides an opportunity to discuss topical economic problems with influential economic circles in the United States. CEPEE sees its task in the encouragement of an economic development which is based on respect of man and social justice and the aim of which is an increase of the economic productivity and thus an improvement of the general living standards. This aim, according to the opinion of CEPEE, can only be realized in a social market economy which guarantees the freedom of every person who participates in economic life.

The unsatisfactory situation with respect to the co-operation of the European economies is believed to be an obstacle in the path toward the realization of this aim. It seems therefore essential that a uniform European market be set up. CEPEE therefore recommends an economic policy in the European states which is based on common principles and which guarantees the freedom to move or settle, the freedom of trade, labor, payments and the movement of funds within the area of the European political economies. Only if such freedom is granted, it will be possible to achieve a genuine division of labor which is the characteristic of a true integration of Europe.

There must be no stagnation in the endeavors for the accomplishment of a European integration. Sound recommendations and equally well-grounded criticism are intended to urge on, support and complement the activities of the governments and state administrations.

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The President of CEPES

President: Professor Vittorio VALZITA, Chairman of the Executive Board
of Fiat S.p.A. Turin (Italy)

Vice-presidents: Dr. Walter BAUER, Executive Board of Val. Mahler A.G.
Fulda (Germany)

Henri de LOVINGESE, Chairman of the Executive Board of
the S.A. Manca, Vaassenmeer (Belgium)

Executive Committee of the German
CEPES-group

Dr. Walter BAUER, Fulda, chairman
Dr. h.c. W.A. MEYER, Frankfurt/H.-Hochst, deputy chairman
Max. J. SCHMIDT, Wiesbaden, deputy chairman
Dr. Erich HÄSLEICH, Freiburg i.Br., treasurer
Prits HERG, Altona/Vest, alias
Dr. Paul BIMMER, Stuttgart
Dr. Hans G. BOTZEN, Frankfurt/H.
Professor Dr. Ludwig KREUZ, Bonn
Otto A. FRIDAIG, Hamburg-Harburg
Dipl.-Ing. Hermann EHLKE, Mertingen
Dr. Dr. Christian EHLKE, Frankfurt/H.
Ottmar von LOESSL, Köln-Lindenthal
Carl NEUMANN, Wuppertal-Larven
Freiherr Leonhard von RÖMEL, Frankfurt/H.
Dr. Dipl.-Ing. o.ö. Otto SCHMIDT, Münster i.B.
Theodor SCHMIDT, Frankfurt/H.

INTRODUCTION

The CEPES-proposals in Connection with the Convertibility Endeavors.

1. The basic principles of the CEPES are in part the following:

"CEPES advocates an economic policy in the European states which is based on common principles and which guarantees the freedom to move about or settle, the freedom of goods traffic, services, payments and the movement of funds throughout the European states. Only as the result of the establishment of such freedom we may accomplish a true division of labor which is the characteristic of a true integration of Europe."

In our first CEPES-study, in which it was tried to work out the most practical methods for the economic integration of Europe, the following was said:

"In the focus of all our endeavors must be the guarantee of a conformable and stabilized credit and currency policy in all participating countries. It will be possible on such a basis only to accomplish eventually realistic exchange rates and to ensure a payment balance within Europe without necessitating administrative restrictions upon imports and payments or a corruption of the competition through subsidies or the like. Only on such a basis the obstacles in the path of international freedom of labor and capital may be overcome."

2. A year has passed since the appearance of the first CEPES-study. In many respects the development has taken place along the lines which were recommended by CEPES in its first study and the progress of a number of states on the way to the internal and external recovery of their economy has proved that the recommended policy was right. This applies also to the progress which has been made with respect to the general convertibility of currencies. However, it would be unjustified to see in the progress of the endeavors for the convertibility of currencies already a guarantee for the economic integration of Europe as conceived by CEPES in its first study. We must therefore concern ourselves more intensely with the subject of the "convertibility of currencies" and examine to which extent the program of CEPES fits in with these endeavors.

3. What is meant by "convertibility"? To begin with it means something seemingly formal: Every owner of a fully convertible currency, whether native or foreigner, may exchange his capital without any control for any other currency. From the economic point of view that means that any citizen or enterprise in a certain country with a convertible currency may freely buy and sell or services from any other country in the world or invest capital wherever it seems most profitable.

4. There is no doubt that a world economy in which all or at least the most important currencies were in such a manner convertible, would approach most closely the ideal of a world with a division of labor and a maximum of freedom in the movement of goods and funds. Unfortunately, however, those governments who are at present negotiating upon the best way to bring about a convertibility of their currencies, have little hope of realizing the convertibility as properly and fully as described above. Some governments intend to grant only foreigners the right of free exchange of their currencies (so-called external convertibility), while others wish to maintain quantitative restrictions upon imports from all countries or at least for those from dollar-countries or other countries with a particularly hard currency. Only very few of the states consider granting the freedom of capital transactions to their own citizens also.

In view of these circumstances the question is justified whether such a limited and incomplete system of convertibility would be able to facilitate the accomplishment of a true division of labor in the European and world economy which we recognized above as the possible result of a full and complete convertibility.

5. The question arises whether the system of convertible currencies as planned at the present time will rest on a sufficiently solid basis to guarantee its maintenance in the face of any interference, and to guarantee to the nations that situation of internal and external economic recovery which is desired by all and which would eliminate the necessity for any other endeavors in this direction. There are apostles of convertibility who believe that the mere resolution to make the currency of a country convertible would suffice to ensure that the entire economic policy of the country concerned would in the future serve the aim and purpose of maintaining a stabilized and sound currency and thus a balance of payments. If such a channelling of the internal economic policy of a state could be ensured alone with the introduction of the convertibility, it would in deed be possible by means of a convertibility of currencies to accomplish also that conformity of the economic policy of the leading states of the world which the first CEPEX-study set forth as the basis for a re-establishment of a world-economic co-operation. In this case any other measures for the establishment of an integrated European economy would hardly be necessary.

6. In its first study CEPEX tried to explain as to how strong in the post-war economy are those forces which hamper a uniform development of the internal economic policies in the various countries and which therefore lead to a non-equilibrium of the ratio of payment balances in the various countries. We only wish to mention in this connection the different concepts on which the economic policies of the various countries are based (for example "full employment", "social market economy", etc.)

the strong and in different countries varying influence of the large power groups such as trade unions, economic unions, etc. upon the economic policy, the tendencies which were to "each country to shield certain branches of the economy from the international competition be it for social or political reasons; etc. It seem doubtful whether the first claim that a currency has (with major or minor restrictions) been made convertible, will suffice to subdue those forces and to prevent them from pursuing a policy which might endanger the equilibrium of payment balances. The fear is therefore justified that those states which decide jointly to make their currencies convertible, are building a house without a solid foundation or, in order to use another picture, to harness a horse which has not as yet been broken. The danger is therefore in the effing of a throwback as we have experienced it after the introduction of the gold standard after the second world war.

7. Aside from that a close examination reveals that those governments which are today endeavoring a convertibility of their currencies, are by no means certain whether by deciding in favor of a convertible currency they will succeed in influencing and binding the internal economic policy of their countries. During the negotiations concerning the joint realisation of the convertibility of the European currencies most of the European governments have made a number of reservations. Some governments intend -even if only as a kind of emergency break- to reserve the right for the re-introduction of quantitative restrictions upon their imports. Others wish to have even in the future the possibility to punish or keep in check chronic creditor-countries with a convertible currency by means of a discrimination of imports from those countries. Other states hope to facilitate the adjustment of their internal economic policy to the given conditions of foreign trades by retaining in principle the right to correct the non-equilibrium in the payment balance by means of fluctuating exchange rates.
8. Those states which strive for the convertibility of currencies and which jointly discuss this subject at the moment, seem to agree in general that the situation calls for the establishment of a superior control organ. This organ would in the event of a re-introduction of quantitative restrictions by a country, for example, examine and control whether there is a reasonable cause for such a measure. Such and similar measures would, however, not be effective if applied to countries with a very bad payment balance structure. It seems much more difficult, if not even completely impossible to find effective international control measures in countries which as a result of a chronic disequilibrium are forced to disturb the world-economical balance. In this case even the attempt to make up for the shortcomings of the present convertibility-system by means of an international union would be the result of the liberalisation code of the UNID and by the institution of

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internationally recognized rules and controls of the commercial-political conduct, does not promise sufficient results. Measures of this kind attack only the symptom and not the cause and therefore can only indirectly and to a limited extent influence the essential and decisive factor, i.e. the internal economic policy of the various countries.

9. CEPEE tried in its first study to put its finger on the weak spot of the European co-operation, i.e. the absence of common principles in the economic policies of the various countries and the absence of an instrument which forces the economic policies of the various countries onto a solid and conformable basis, such as the gold standard in its ideal form. CEPEE has, therefore, recommended a system which might best be described as an "as-if gold standard". In particular when the convertibility of the most important European currencies -even if only in an imperfect form- should be realized it will be indispensable to underpin this arrangement by a system of firm obligations for the internal economic policies of the various countries and by an effective control which assures the observance of those obligations. This is the idea of the CEPEE-recommendation.
10. It does not seem necessary that all currencies which, we hope, will be made convertible in the near future, join immediately such a system of self-adopted obligations. It would be a great step forward if for the time being some of the leading European states decided on such mutual obligations because the political economy on the European continent in particular is threatened by internal tensions and explosive forces. Even if for the time being only a small group of states could co-operate in such a manner, they might provide a basis for the new and already discernible world-wide convertibility system thereby lending this system duration and convincingness, all the more so because on the basis of the system recommended by CEPEE- the partner-states would soonest be able to achieve the above-described true and perfect form of convertibility as a result of which for the area of those states the numerous restrictions could be discarded which are at present still planned to be maintained.

The CEPEE-recommendations thus provide for the possibility to lend the future system of convertible currencies a constructive core and a solid skeleton and are therefore of special interest. These recommendations provide for an unobjectionable possibility for a change-over to a system of full convertibility and at the same time they suggest the means by which an existing convertibility system might be protected against possible wrecks.